



MANAGEMENT'S DISCUSSION AND ANALYSIS

OZARK NATIONAL LIFE INSURANCE COMPANY
Management's Discussion and Analysis B 2008
NAIC Group Code 0000/NAIC Company Code 67393

Introduction

This discussion provides management's assessment of the current financial condition, changes in financial condition and results of operations. Additionally, cash flow and liquidity for Ozark National Life Insurance Company ("the Company") will be discussed. Information presented in this discussion supplements the financial statements, exhibits and schedules in the 2008 annual statement.

Financial Position

The Company's investing philosophy is to maintain a portfolio of high-quality fixed income securities. At the end of 2008, 98.8% of the bond portfolio consisted of U.S. government or government-sponsored issuers, and 100% of the portfolio was rated investment grade. Within the portfolio, the Company maintains a significant exposure to agency mortgage-backed bonds, primarily pass-through securities. This provides the Company with monthly cash flows for re-investment purposes or to provide short-term and long-term liquidity for other corporate purposes. The bond portfolio represented 92.0% and 93.3% respectively of invested assets in 2008 and 2007. In 2008, the portfolio contained no direct subprime mortgage exposure.

During 2008, the Company did open a small common stock position, 0.1% of invested assets, through the acquisition of an exchange-traded mutual fund representing the S&P 500 index. Additionally, short-term investments increased at year-end 2008 to 3.2% of invested assets increasing liquidity during a time of market volatility, but is considered to be a temporary situation rather than a change in investment philosophy.

There were no other material changes between years in any other invested asset categories.

The Company has a non-interest sensitive liability structure, consisting primarily of aggregate reserves for individual whole life policies. All reserves have been computed in accordance with commonly accepted actuarial standards. Please refer to the Company's statement of actuarial opinion included in its statutory annual statement.

There were no material changes between years in any of the other liability categories.

Total capital and surplus of \$96.6 million for 2008 represents a 10.9% increase over the \$87.1 million capital and surplus level at the end of 2007. The increase was greater than projected due to higher earnings (see Results of Operations).

Dividends to our parent company in 2009 are scheduled to be 61.8% of our projected net gain from operations, while capital and surplus is expected to increase by approximately 7.8%. The ratio of surplus to admitted assets of 15.6% in 2008 and 14.8% in 2007 continues to increase, and is projected to increase in 2009. On a risk adjusted basis, surplus should be considered above-average as measured by the risk-based capital analysis on lines 30 and 31 of the five-year historical data. The Company's goal is to maintain a strong surplus position to support our liabilities and meet any adverse experience that may occur in the future.

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Results of Operations

Net income of \$21 million was approximately 8.8% greater than projected in 2008. The impact of higher investment earnings, and lower than anticipated reserve requirements, agent commissions, and effective federal tax rate were the primary drivers for the earnings variance. Insurance taxes, licenses and fees expense was higher due to an increase in reserving for future state guaranty fund assessments. No other unusual or infrequent events or transactions occurred during 2008 which materially affected our results of operations.

Total premium decreased 3.3% in 2008, but first year premiums declined 21.6%. Total premiums have generally been in decline since 2002, with the one exception of 2004. In 2009, the Company is forecasting an additional 4.3% year-over-year decrease in total premiums, estimating that the current stressed economic environment will impede new life insurance sales. Also, as in the industry, the Company has struggled with agent recruiting/licensing efforts but has undertaken recent hiring incentives and initiatives to reverse that trend.

The Company's projected 2009 pre-tax earnings and net income is \$31.1 million and \$19.4 million, respectively.

Cash Flow and Liquidity

Net cash flow from operations continues to be adequate with \$42.6 million in 2008 compared to \$47.8 million in 2007. The decrease attributable to higher death claim payments to policyholders. The Company has no interest sensitive life insurance and a relatively small block of annuities and is well positioned to satisfy its current and future cash requirements. Because the Company's focus is a traditional whole life product with an attached mutual fund investment (Pioneer Fund), the Company does not have the same asset/liability matching issues that many companies face. Additionally, the Company has continued to maintain a bond portfolio of high quality, marketable securities with an emphasis on residential mortgage-backed issues that generate monthly cash flows.

The Company has no borrowed funds, no off-balance sheet arrangements and no participation in high yield financings, highly leveraged transactions or non-investment grade loans/securities that would impact cash flow or liquidity.

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General Matters

The Company has made significant progress in solidifying its financial strength. Over the past ten years, assets have more than doubled growing from \$298.4 million at December 31, 1998 to \$617.6 million at December 31, 2008, while capital and surplus has more than tripled increasing from \$25.6 million at December 31, 1998 to \$96.6 million at December 31, 2008. The Company's greatest challenge to future growth is to overcome a shrinking sales force, which has resulted in continuing decreases in first year premium.

The Company intends to continue its conservative philosophy in 2009 regarding types of invested assets, insurance products sold and financial position which includes capitalization and liquidity.

Forward Looking Statements

This document contains certain forward looking information within the meaning of the Private Securities Litigation Reform Act of 1995 including, without limitation, statements regarding future sales, income, and capital and surplus levels. These forward-looking statements are subject to certain risks, uncertainties and other factors which could cause actual results to differ materially from those anticipated.